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January 24, 2012

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington DC 20554

Re: Lifeline and Link-Up Reform and Modernization, WC Docket No. 11-42; Lifeline and Link-up, WC Docket No. 03-109

Dear Ms. Dortch,

On January 23, 2012, Robert Quinn, Cathy Carpino, and the undersigned of AT&T met, in separate meetings, with Zac Katz and Michael Steffen of Chairman Genachowski's office; Angela Kronenburg of Commissioner Clyburn's office; and Christine Kurth of Commissioner McDowell's office. Also participating in the meeting with Zac Katz were Sharon Gillett, Carol Matthey, Trent Harkrader, and Kim Scardino of the Wireline Competition Bureau.

During every meeting, AT&T emphasized that wireline telephone companies are no longer dominant providers of voice service¹ and thus should be able to choose whether to participate in the Lifeline program, just as wireless providers do today. AT&T has consistently advocated for the creation of a stand-alone Lifeline Provider designation in order to delink the provision of Lifeline discounts from other, unrelated eligible telecommunications carrier (ETC) requirements. At the same time, AT&T proposed a series of reforms to streamline and modernize the Lifeline program in the hopes of making it less burdensome for service providers and thus attractive to a variety of providers, such as broadband providers. Instead, through its proposed order, the FCC appears to be increasing the burdens on both consumers and service providers in an attempt to contain the waste, fraud and abuse now prevalent in its Lifeline program. While wireline ILECs are not the cause of the program's well-known problems, they will be forced to bear the same burdens of some of the Commission's misguided proposals and thus should have the same ability to opt out of the program.

¹ The attached chart, not previously shared with staff, shows the dramatic decline in ILEC residential lines since 1999 as compared to the steady growth in housing units. The data show that by December 2012, it is estimated that, on average, out of every 100 housing units only 29 will have an ILEC voice line.

Most importantly, AT&T urged the Commission to take service providers out of the role of determining customer eligibility for the Lifeline discount. The determination of eligibility for a Federal government program that is now approaching \$2 billion/year should not be performed by commercial entities that may stand to gain from an affirmative determination. This is clearly a role for public entities such as the states, whose databases contain the underlying eligibility data, or the FCC via USAC or another third-party administrator.

The FCC must go further than seeking comment on an eligibility database in a Further Notice of Proposed Rulemaking. The FCC should immediately adopt rules establishing a centralized national database for determining consumer eligibility for Lifeline and should delegate to the Bureau the responsibility for implementing such a database by a date certain. AT&T recommends that the Bureau establish a cooperative working group to implement the database similar to the one that implemented the successful Duplicate Resolution Process but including state representatives. Lifeline service providers should play a role in this working group but it would be inappropriate for service providers to be given or be allowed to take responsibility for creating and/or operating the eligibility database or for interfacing on an ad hoc basis with state agencies that manage databases. In addition, the FCC should not establish (or at the very least should delay the establishment of) burdensome document production requirements on consumers and a 100% annual verification requirement on providers. Implementing these ineffective stop-gap measures would squander time and resources that are better focused on the rapid implementation of a national eligibility database.

All material used during the meetings as well as an additional chart not previously shared with staff are attached to this filing. Please do not hesitate to contact me at (202) 457-2041 if you have any questions.

Sincerely,

/s/ Mary L. Henze

Mary L. Henze

cc: Z. Katz
M. Steffen
A. Kronenburg
C. Kurth
S. Gillett
C. Matthey
T. Harkrader
K. Scardino

Lifeline reform is long overdue . . . but more changes will be needed

- CAF Order establishes broadband as USF priority
- But growth of voice-only Lifeline fund puts all of USF at risk
 - If every eligible person signed up for Lifeline fund would be over \$5 billion
 - Is asking American consumers to pay \$5 billion to support a Lifeline voice program the best use of their dollars?
- A fundamental assessment of Lifeline program is still needed

Solution:

1. Conduct comprehensive survey/study of low income telecom users, both Lifeline and non-Lifeline and those with and without phone service.
 - Marketplace and service options have changed radically since inception of program; consumers can now choose voice service from among many different technologies and price points.
 - FCC needs better data to understand whether program should be modified to make better use of limited funds.

For example:

- To date, 84% of AT&T customers who were de-enrolled from Lifeline as result of recent Duplicate Resolution Process took NO action in response to loss of discount. Only 13% requested disconnection from wireline service.

All providers must be able to opt-in or out of Lifeline participation

- CAF Order created a new paradigm for high-cost support: Providers affirmatively seek support that is geographically targeted and competitively awarded in exchange for service obligations. This paradigm should apply to all other USF programs, including Lifeline.
- Wireline ETCs have no choice but to participate in Lifeline, even though more and more Lifeline customers prefer the prepaid wireless option; wireless carriers can pick and choose when and where they serve.
- Dramatic Lifeline growth is all in wireless services; wireline carriers see steady decrease in Lifeline subscribers.
- Largest wireless providers of Lifeline collect more than double from Lifeline fund than largest wireline Lifeline providers. *(Estimates based on Sep 2011 USAC data.)*
 - Tracfone + Virgin Mobile = \$764 million
 - AT&T + Verizon = \$377 million

Solution:

1. Sunset all existing ETC designations, state and federal, by no later than 1/1/2013.
2. Delink ETC designation from Lifeline and immediately establish separate Lifeline Provider designation and provide all carriers the option to be designated or not.

Waste will continue as long as FCC requires service providers to determine eligibility

- Determination of eligibility should be in hands of a public entity NOT the service providers who may stand to gain. If service providers remain responsible, eligibility criteria must be clear and simple to administer.
- FCC should establish ONLY three national criteria; participation in:
 - Medicaid
 - Supplemental Nutrition Assistance Program (SNAP), or
 - Supplemental Security Income (SSI).
- Over 85% of AT&T Lifeline customers in Southeast qualify due to participation in these three programs: Medicaid 41%, SNAP 35%, and SSI 12%. Only 3% qualify based on Housing Assistance, 2% based on Income, and 1% on National School Lunch.
- More eligibility criteria add cost, increase the opportunity for error and fraud, and complicate enforcement without providing a similar benefit. Makes 100% certification extremely difficult.
- 100% annual verification will substantially increase costs, especially wireline costs since "texting" verifications are not an option.
 - Change to every two years; provide maximum flexibility of method used and adequate time to implement

Solution:

1. FCC must put public entities in charge of Lifeline eligibility determination ASAP.
2. If service providers remain responsible:
 - a. FCC must limit eligibility to three federal programs,
 - b. *Prohibit* states from adding additional criteria *unless* they take on full responsibility for determining Lifeline eligibility, and
 - c. *Require* states to take action to allow access to existing program eligibility databases (preferably by centralized entity such USAC)

FCC must focus audit/enforcement where known problems exist

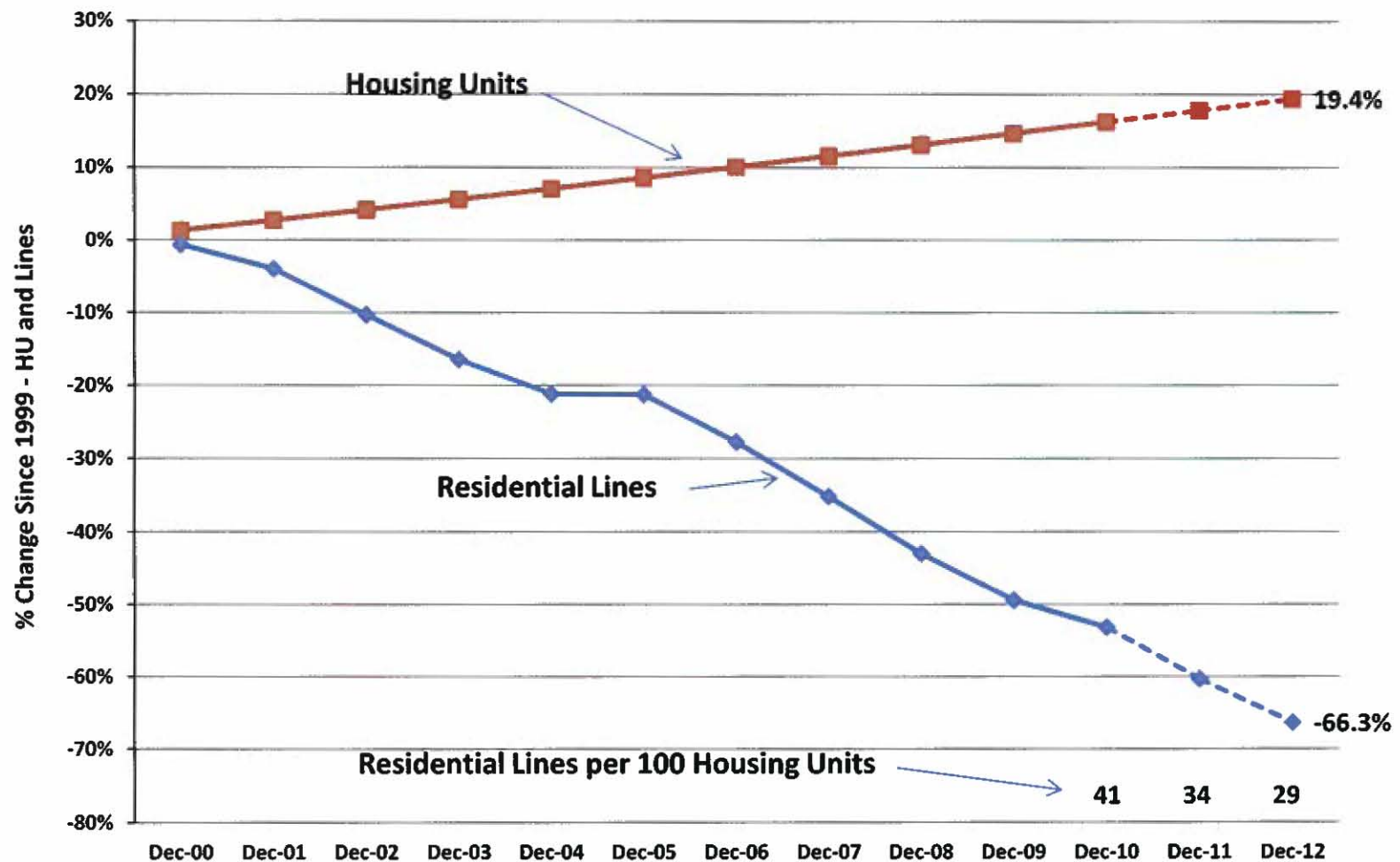
- Over the past few years, much time and money has been wasted by all parties on audits of outdated rules that, in the case of AT&T, made no findings relevant to the critical issues plaguing Lifeline program.
- New independent audits must replace, not be added to, the multiple/redundant audit processes in place today:
 - USAC program compliance audits
 - OIG audits
 - Payment Quality Assessments
 - USAC Limited Reviews
 - In-Depth Data Validations
- Any new audits are only useful if they are targeted and designed to test areas of greatest risk, which, USAC's audit experience demonstrates, do not involve wireline providers like AT&T's ILECs.
- Since July 2010, FCC and USAC have wasted resources on redundant reviews of AT&T Lifeline operations. 20 of AT&T's 22 wireline ILEC ETCs have been subject to a combined 39 Audits, IDVs, PQAs, and Limited Reviews. Many of AT&T's wireline ILECs have been subjected to repeated PQA reviews. For example:
 - *Missouri*: Five PQAs in 15 months (findings: \$167)
 - *Ohio*: Two PQAs in 6 months (findings: \$401)
 - *N. Carolina*: Two PQAs, One IDV in 10 months (findings: \$211)
 - *S. Carolina*: Five PQAs in 13 months (findings: \$498)

Summary:

- Aggregate monetary value of the 20 findings to-date: \$13,630.
- Monthly AT&T Lifeline support in states with findings: \$18,460,135
- Aggregate percent value of finding vs. support: .074%

Plain Old Telephone Service (POTS) is a Broken Business and a Broken Regulatory Model

AT&T ILEC States, December 1999 - December 2012



Data Source:

- ILEC Res Lines from FCC Local Telephone Competition Reports
- Housing Units are linear plots of values from 1990, 2000, 2010 Census
- Data for 2011 and 2012 are estimates using linear trending